

CALIFORNIA'S BUDGET PROCESS

PREFACE

The budget process for California defies a simple concise definition. It is a process rather than a product. It is not the development of the Governor's Budget, the Legislature's enactment of a budget nor the executive branch's administration of the budget. Rather, it is the combination of all of these phases with all the ramifications and influences of political interactions, relationships with federal and local governments, public input, natural events, legal issues, the economy, initiatives and legislation, etc.

Although the size and complexity of California and the dynamics of the process make it difficult to establish and maintain an orderly process, these very reasons necessitate an orderly formalized process. The following sections summarize the major steps and procedures of California's budget process.

BUDGET DEVELOPMENT

The State Constitution requires that the Governor submit a budget to the Legislature by January 10. It provides for a balanced budget in that, if the proposed expenditures for the budget year exceed available resources, the Governor is required to recommend the sources for the additional funding.

The Director of Finance, as the chief financial advisor to the Governor, directs the effort for preparation of the Governor's Budget. Under the policy direction of the Governor, the Director of Finance issues instructions and guidelines for budget preparation to agencies and departments. This effort typically gets underway even before the Legislature has passed the budget for the current fiscal year.

Although California has and does utilize concepts such as Zero-Based Budgeting, Management by Objectives, and Total Quality Management, the basic approach utilized is a mixture of incremental budgeting, zero-basing and special reviews. This approach uses the current departmental/program level of funding as a base amount to be adjusted by change proposals, including zero-basing of some items/programs and subjecting others to special reviews to determine the proper funding level. The Budget Change Proposal (BCP) has been the traditional decision document for departments to propose a change to the existing budget level. BCPs are submitted to the Department of Finance for review and analysis.

The general goal in the budget decision process is to resolve budget issues at the lowest level possible. For those departments that are under an Agency Secretary, departments must clear their proposals through Agency-level hearings. The Department of Finance generally attends these hearings. For non-Agency departments, proposals are presented directly to the Department of Finance. Issues which are not resolved between departments and Finance staff are discussed at hearings conducted by the Director of Finance. The most sensitive issues are ultimately presented to the Governor for a decision.

After all decisions are completed, the Department of Finance coordinates the printing of the following publications which comprise the Governor's Budget package. The Budget Summary and Budget Highlights are also available from the Department of Finance Website, <http://www.dof.ca.gov>.

- Governor's Budget Summary - A summary volume which includes the Governor's goals and objectives for the forthcoming year, and the policy perspectives and highlights of changes in the Governor's Budget.
- Governor's Budget - A detailed presentation for each department for the past, current, and budget years.
- Governor's Budget Highlights - A pocket size highlights book of narrative, charts and graphs issued on the Press Conference day.
- Salaries and Wages Supplement - A detailed presentation of authorized staffing and related salaries.

The Governor annually unveils the budget at a formal press conference. The Governor's State of the State address typically includes a general presentation of the Administration's budget policies and priorities.

BUDGET ENACTMENT

By constitutional requirement, the Governor's Budget must be accompanied by a Budget Bill itemizing recommended expenditures which shall be introduced in each house of the Legislature. The Constitution also requires that the Legislature pass the bill by June 15.

The Senate Budget and Fiscal Review Committee and the Assembly Budget Committee are the two committees that hear the Budget Bills. They assign the items in the bill to several subcommittees (by major subject areas such as Education or Health and Welfare) which conduct budget hearings. These hearings generally begin in late February soon after the Legislative Analyst issues the "Analysis of the Budget Bill". The Legislative Analyst is appointed by the Joint Legislative Budget Committee and is charged with providing a nonpartisan analysis and recommendations for changes to the Governor's budget plan.

In addition to the Legislative Analyst, the Department of Finance and departmental staff typically provide testimony at the subcommittee hearings. In recent years, there has been increasing input by partisan fiscal committee consultants of both the majority and minority parties. Additionally, lobbyists and the public may provide testimony at the hearings.

The Department of Finance proposes adjustments to the Governor's Budget through "Finance Letters". By statute, the Department of Finance is required to give the Legislature all proposed adjustments, other than Capital Outlay and May Revision, to the Governor's Budget by April 1. Capital Outlay adjustments are due by May 1. The traditional May Revision adjustments are due by May 14, and consist of an update of General Fund revenues and changes in expenditures for school funding requirements pursuant to Proposition 98, caseload, enrollment, or population. The Legislature typically waits for the May Revision update before final budget decisions are made on major programs such as Education, Corrections, and Health and Welfare.

When a subcommittee completes their actions, they report their recommendations to the full committee. Upon adoption of the budget by the full committee, a recommendation is made to the Floor (full house). Upon two-thirds vote of the house, the Budget Bill is passed to the other house. A Budget Conference Committee is then appointed to work out differences between the Senate and Assembly versions of the bill. Upon completion of action by the Conference Committee and a two-thirds vote, this conference version is then sent to the two houses for approval.

Sometimes the Conference Committee does not reach final resolution on the budget. This stalemate typically results from non-resolution of a few major issues. These issues are then resolved by the "Leadership" or "Big 5" (Governor, Speaker of the Assembly, President Pro Tempore, and the minority leaders of both houses).

When the Budget Bill receives a two-thirds vote of each house, it is passed on to the Governor. The Constitution allows the Governor to reduce or eliminate an item of appropriation

Although there is no constitutional requirement for passage of a balanced budget, enacted budgets generally project a balanced budget.

The Department of Finance publishes three documents upon enactment of the Budget Act. The first two are also available from the Department of Finance Website.

- California State Budget Highlights - A pocket size highlight book of narrative, charts and graphs.
- Final Budget Summary - This document is an annotated version of the Budget Act which includes summary tables, technical corrections to the Budget Act, and the effect of vetoes on the items and sections of the Budget Act.
- Final Change Book - This document provides the detail of changes between the January 10 budget and the enacted budget.

There are generally budget changes proposed by the Governor or the Legislature which necessitate changes to existing law in order to implement the budget changes. If this is the case, separate bills are introduced to implement the change. These budget implementation bills are called "trailer bills" and heard concurrently with the Budget Bill. By law, all proposed statutory changes necessary to implement the Governor's Budget are due to the Legislature by February 1.

ADMINISTRATION

The Budget Act is the primary source for appropriations. Continuous statutory appropriations and special legislation also provide expenditure authority.

Departments have the primary responsibility to operate within budgeted levels and to comply with any restrictions or limitations enacted by the Legislature. Further, the general expectation is that state agencies comply with the legislative intent. Although the general expectation is to conform to the enacted budget, the Legislature has recognized a need to establish some flexibility to adjust budgets. For example, the statutes provide a continuous appropriation for allocations by the Director of Finance to meet expenditures resulting from natural disasters for any emergency proclaimed by the Governor. The Legislature has also provided provisions in the Budget Act to allow for budget adjustments. Most of this authority requires Director of Finance approval; many require a formal notice to the Legislature and a waiting period to provide the opportunity for legislative review and response before final approval. Budget Act provisions to allow adjustments include authorizations for:

- Changes to federal funding levels
- Deficiencies (shortage of expenditure authority)
- Changes to reimbursements
- Intra-item transfers

The Department of Finance approves budget changes using Budget Revisions, Executive Orders and letters. These changes are transmitted to the State Controller's Office, which maintains the statewide appropriation control accounts.

The Governor has certain powers to adjust expenditures. Although these powers do not permit for adjustment of appropriations, the expenditure plan may be changed. For example, past Governors have issued executive orders to implement hiring and equipment purchase freezes and delayed capital expenditures. Under emergency conditions, the Governor is also authorized to direct State resources to meet emergency needs.

BUDGET PROCESS

Because of the dynamic nature of California's budget process, there is no single document which provides a comprehensive description of the process. The dynamics require changing instructions, descriptions, forms and procedures, law changes, etc. The following provide information about the budget process:

- Governor's Budget package
- Legislative Analyst's "Analysis of the Budget Bill"
- State Administrative Manual
- Budget Act and Final Budget Summary
- Final Change Book
- Budget Letters and budget related Management Memos
- Internet:
 - DOF Website: <http://www.dof.ca.gov>
 - Budget Letters Website: <http://www.dof.ca.gov/html/budlettr/letters.htm>

SAM illustration 6001.6 portrays the annual budget process in a relatively simple flow chart.

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